The Relative Effects of Entrepreneurial Characteristics and Government Support on the Internationalisation and Performance of Malaysian SMEs

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Abstract

Research Aims - In line with international entrepreneurship theory, this study investigated the effects of entrepreneurial characteristics and government support on small and medium enterprise (SME) internationalisation and performance.

Design/Methodology/Approach - The study focussed on Malaysia as a developing economy; data were gathered from 237 SMEs with international business operations to facilitate the examination of associative relationships among the variables.

Research Findings - Results of structural equation modelling show that government support has a direct positive effect on internationalisation whereas entrepreneurial characteristics do not.

Theoretical Contribution/Originality - Internationalisation is, however, a significant mediator only between government support and firm performance. Nevertheless, the firms’ high mean scores in entrepreneurial characteristics suggest the possibility that government support can improve internationalisation only when entrepreneurial characteristics are strong.

Managerial Implications in the Southeast Asian Context - Internationalisation is, however, a significant mediator only between government support and firm performance. Nevertheless, the firms’ high mean scores in entrepreneurial characteristics suggest the possibility that government support can improve internationalisation only when entrepreneurial characteristics are strong.

Research Limitations and Implications - The results suggest a possibility that government support can improve internationalisation only when entrepreneurial characteristics are strong. In other words, instead of being a direct determinant of internationalisation, entrepreneurial traits may be a moderating factor between government support and internationalisation. However, this proposed moderating effect was not tested in the current study and needs to be investigated further in future.

Keywords - Entrepreneurial characteristics, Government support, Internationalisation, firm performance, small and medium enterprises, Malaysia

INTRODUCTION

Internationalisation emerged as a significant topic in business research because of its expected contributions to a company’s market expansion and cost reduction initiatives (McDougall and Oviatt 1996; Wright et al. 2007; Zahra et al. 2005). However, the impact of internationalisation on organisational performance is yet to be fully understood, with past research producing mixed results (Bloodgood et al. 2000).

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For instance, while Zahra and Bogner (2000) found that the return on equity was not affected by internationalisation, Chiao et al. (2006) reported an inverted U-shaped relationship between internationalisation and return on sales. Because of the ambiguity of past findings, recent research has been extended to derive a clearer picture of the internationalisation process.

In their attempt to better understand the internationalisation behaviour of firms, international business scholars have examined both internal and external factors as determinants of internationalisation (Busenitz et al. 2003; Grande et al. 2011; Kiss et al. 2012). Studies adopting a resource-based view (RBV) of internationalisation suggest that entrepreneurial characteristics, such as learning orientation, innovativeness, networking and market knowledge, have a significant influence on business internationalisation and performance (Autio et al. 2000; Grande et al. 2011; Townsend and Cairns 2003; Wincent 2005). On the other hand, institutional theorists emphasise the importance of external factors such as legal frameworks, public infrastructure and government support, especially in less developed regions (Dickson and Weaver 2008; Hashim 2012; Smallbone and Welter 2001; Tambunan 2008).

Much of the interest has been on the internationalisation of small and medium enterprises (SMEs), particularly in developing nations, because of their importance to local employment and economic growth (Andersson et al. 2006; Lee et al. 2013; Tambunan 2008). Nevertheless, studies of the determinants of SME internationalisation in these regions are lacking (Chelliah and Sulaiman 2010; Nik Abdullah and Zain 2011; Senik et al. 2010). Most of them have analysed the profile of international SMEs but do not focus specifically on the antecedents and outcomes of internationalisation (Abdullah et al. 2001; Hashim and Hassan 2008; Saleh and Ndubisi 2006). Others are mainly conceptual and lack the empirical evidence necessary to substantiate the arguments put forward (Hashim 2012; Khalique et al. 2011; Muhammad et al. 2010).

The relative effects of internal and external factors on the internationalisation of SMEs is a worthy area of research, especially when viewed from the perspective of a developing country. The research can help improve their performance in the global business environment. In particular, Malaysian SMEs are interesting to study due to the government’s high level of business intervention (Fraser et al. 2006; Gomez and Jomo 1998; Mamman 2004; Tajuddin 2012). This study is therefore timely since it will build a greater understanding of the current performance of Malaysian SMEs and facilitate their future development.

Based on a review of international entrepreneurship literature, government support and three entrepreneurial characteristics were selected in this study as independent variables, and their relationships with SME internationalisation and firm performance were analysed.

The paper, applying quantitative methodology via structure equation modelling,
examined associative relationships involving four sets of variables, namely: (1) entrepreneurial characteristics comprising entrepreneurial orientation, network relationships and global mindset; (2) government support; (3) internationalisation; and (4) company performance. Findings of the study are expected to contribute to the development of SME internationalisation theory and practice in Malaysia and other similar developing economies.

LITERATURE REVIEW AND HYPOTHESES

International entrepreneurship theory

Some of the most well-known contemporary theories of internationalisation include the Uppsala model (Johanson and Vahlne 1977), Dunning’s (1988) eclectic paradigm and international entrepreneurship (Zahra and George 2002). The Uppsala model and eclectic paradigm are both grounded in a gradual and incremental approach to internationalisation, where firms venture abroad when it is clear that the advantages of internationalising far outweigh their domestic operations. Consequently, in recent years, these theories have been criticised for their inability to explain the emergence of firms which internationalise at birth, commonly known as international new ventures, born globals or global start-ups (Madsen and Servais 1997; McDougall et al. 1994; Oviatt and McDougall 1995). These firms appear to leverage non-traditional competitive advantages, and their performance in the global environment seems to be primarily influenced by a specific entrepreneurial mindset and behaviour (Zahra and George 2002). Accordingly, international entrepreneurship has emerged as a new theory which considers internationalisation as a product of the entrepreneur’s strategic actions that enable the organisation in overcoming existing constraints.

Within entrepreneurship and strategic management literature works, scholars often refer to two ‘opposing’ perspectives on how internationalisation is affected by internal and external factors. The influence of internal characteristics, such as firm resources, entrepreneurial traits and leadership, is emphasised particularly by the RBV (Autio et al. 2000; Townsend and Cairns 2003; Wincent 2005). Besides, institutional theory underlines the importance of external forces including legal frameworks, public infrastructure and government support (Khanna and Palepu 2000; Peng and Delios 2006, Ramamurti 2004).

The effect of internal characteristics on internationalisation has been the subject of research since the middle of the twentieth century (Conner 1991; Covin and Slevin 1989; Venkatraman 1989). The RBV of internationalisation focuses on the company’s sustainable attributes as a competitive advantage required for international expansion and superior performance (Mtigwe 2006; Stone and Brush 1996; Teece et al. 1997). It argues that a firm’s ability to obtain and maintain profitable market positions depends on its capacity to gain and defend advantageous resources including human capital, funding, technology and networks. Furthermore, the critical resources needed for internationalisation should be valuable, rare, not easily imitated and not substitutable.
In contrast, proponents of the institutional theory argue that since market-supporting institutions are less developed in emerging economies, firms operating in these regions have less strategic choices (Khanna and Palepu 2000; Peng and Delios 2006; Ramamurti 2004). The regulatory pillar of the institutional framework specifies the ground rules for doing business, the policies and programmes supporting business development and the extent to which these systems are effectively monitored and enforced (Busenitz et al. 2000; Kostova 1999; Kostova and Roth 2002). Accordingly, institutional theory has been employed in emerging and developing economies typically to provide a framework for analysing firm behaviour within those constraints (Peng and Delios 2006; Wright et al. 2007).

Drawing upon a critique of previous internationalisation frameworks, Ruzzier et al. (2006) proposed a new integrative model which conceptualises entrepreneurial characteristics and external factors as predictors of internationalisation and firm performance as its outcome. From this model, some predictors can be identified as being particularly important, namely entrepreneurial orientation, network relationships and global mindset (entrepreneurial characteristics), as well as government support (external factor). The potential effects of these internal and external factors are elaborated below and are followed by the associated hypotheses.

**Determinants of SME internationalisation**

**Entrepreneurial characteristics**

According to Ruzzier et al. (2006), entrepreneurial traits are potentially significant predictors of internationalisation because the motivation to venture abroad and the probability of international success mainly depends on the entrepreneur’s personality and mindset. The three characteristics of an entrepreneur who is often associated with internationalisation are entrepreneurial orientation, global mindset and network relationships. Each of these characteristics is expanded as follows:

- **Entrepreneurial orientation** refers to the extent to which entrepreneurs display proactive and innovative actions and take calculated risks to create and exploit opportunities in the environment (Covin and Slevin 1989; Grande et al. 2011; Kreiser et al. 2002). A high level of entrepreneurial orientation will increase their tendency to explore and support new ideas, experimentation and creative processes that help generate new products, services, technologies and markets (Dickson and Weaver 2008; Lumpkin and Dess 1996; Venkatraman 1989). This characteristic also illustrates how entrepreneurs relate to market opportunities and shape the environment in an advantageous fashion, as well as their willingness to make significant and uncertain resource commitments that have a substantive chance of costly failure (Baird and Thomas 1985; Miller and Friesen 1983). Consequently, entrepreneurial orientation is expected to have a positive direct effect on internationalisation (Naldi et al. 2007).

- **Global mind-set** generally implies openness to variety in cultures and markets, as well as a propensity and ability to synthesise across diversity (Gupta and Govindarajan 2002; Levy 2005). It also represents an ability to scan the world from a broad perspective, always looking for unanticipated trends and opportunities that...
may consist of a threat or a chance to achieve personal, professional or organisational objectives. Research suggests that a global mind-set is a prerequisite for effective international leadership (Cohen 2010; Harveston et al. 2002; Townsend and Cairns 2003). Furthermore, new ventures which are managed by individuals with a clear global vision appear to be more capable of internationalising speedily and successfully (Knight 2001; Oviatt and McDougall 1995), implying a direct and positive association between global mindset and internationalisation.

- Network relationships can be conceptualised as formal and informal relations with customers, suppliers, competitors, government authorities, bankers, families, friends, or any other party that enable entrepreneurs to widen their business activities (Zain and Ng 2006). Networking can assist firms in gaining access to resources and control transaction costs, learn new skills and cope positively with rapid technological changes (Bonaccorsi 1992; Das and Teng 1998; Hitt and Ireland 2000). The researchers found that network relationships are the main initiators of the internationalisation process and firms follow their networks to foreign markets (Chetty and Holm 2000; Oviatt and McDougall 2005; Westphal et al. 2006). This finding is in line with the assumption that network relationships can act as a bridge between the home and host environments (Johanson and Mattsson 1993). Also, McDougall et al. (1994) observed that networks expedite the internationalisation speed of born globals by helping to identify international business opportunities, and they have an influence on the founders’ country choices. These studies provide a strong basis to propose that network relationships have a direct positive effect on internationalisation (Wincent 2005; Ibeh and Kasem 2011).

Entrepreneurial orientation, global mindset and network relationships are all expected to have a direct positive effect on internationalisation. A single hypothesis can be proposed which sums up this theoretical link between entrepreneurial characteristics and internationalisation. Accordingly, the first hypothesis of this study is stated as follows.

**H1: Entrepreneurial characteristics (comprising entrepreneurial orientation, global mindset and network relationships) have a direct positive effect on SME internationalisation.**

**Government support**

The internationalisation of SMEs also depends on some external factors and stakeholders, especially support from the government (Ahmad and Kitchen 2008; Pergelova and Angelo-Ruiz 2014; Tambunan 2008). The most obvious way that governments can improve SME development is through the direct support policies and programmes which are designed to assist them in overcoming size-related disadvantages (Smallbone and Welter 2001; Wren and Storey 2002). Additionally, general financial support, procurement programmes, tax incentives and export assistance contribute to a conducive regulatory environment that can help entrepreneurial efforts (Phillips 1993; Reynolds 1997; Spencer and Gomez 2004).

In the context of developing countries, Abdullah (1999) categorised government...
support for SMEs into five types: financial and credit assistance; technical and training assistance; extension and advisory services; marketing and market research and incentives and infrastructure facilities. Government programmes such as business development assistance can improve some aspects of SME internationalisation such as their level of innovativeness and rate of entry into foreign markets (Kang and Park 2012; Yusuf 1995; Senik et al. 2010). Based on these arguments, a direct positive relationship between government support and internationalisation is proposed in the second hypothesis below.

H2: Government support has a direct positive effect on SME internationalisation.

Relative effects of entrepreneurial characteristics and government support

Some studies suggest that while government support is essential for SME development, the firms’ internal characteristics will tend to have a stronger influence as they are more easily controlled by the firms (Goncalves and Quintella 2006; Waring 1996; Wiggins and Ruefl 2002). Entrepreneurial characteristics represent a strong motivation and a considerable aptitude for international business practices which help the companies cope well with challenges in the global environment (Mtigwe 2006). Characteristics such as entrepreneurial orientation, global mindset and network relationships are part of a firm’s strategic management which helps it to acquire more resources and market knowledge and will, therefore, have a significant impact on its rate of internationalisation.

In contrast, the effect of government support on SME internationalisation appears to depend on the type of support given to the firms. Particularly in Malaysia, studies suggest that government support in the form of protectionist practices reduces a firm’s ability to compete internationally (Fraser et al. 2006; Mamman 2004). Other forms of government support, such as the direct awarding of government projects, may even cause SMEs to be reluctant to leave their comfort zone and venture abroad (Idris 2012), which lowers their motivation to internationalise. Based on these arguments, entrepreneurial characteristics are expected to be stronger determinants of SME internationalisation than government support. This proposition is captured in the next hypothesis.

H3: Entrepreneurial characteristics are stronger predictors of SME internationalisation than government support.

Internationalisation and firm performance

Research in the area of firm performance shows that successful SMEs tend to expand market size and improve economies of scale by internationalising their business (Bosma and Levie 2010; Lu and Beamish 2006). For firms which have a small financial base and a restricted geographic scope at home, international business is especially important because it increases market and partnership opportunities (Barringer and Greening 1998; Bonaglia et al. 2007). Through internationalisation, SMEs can exploit both internal and external factors to generate higher sales, profits and returns on investment (Majocchi and Zucchella 2003; Nummela et al. 2004; Westhead et al. 2001). Other studies suggest that internationalisation increases ben-
efits in networking and, in turn, enhances performance in terms of market knowledge, technological acquisitions and business innovations (Watson 2007; Zahra and George 2002). Accordingly, internationalisation is widely considered as a mechanism for SME growth (Bosma and Levie 2010; Peng and Delios 2006; Westhead et al. 2001).

From these studies, it is evident that firms can enhance their performance much better through international business than through domestic operations. Internationalisation allows entrepreneurs to optimise their own strengths and any additional assistance provided by external stakeholders to pursue opportunities which are not available in the home environment. In short, internationalisation appears to mediate the effects of entrepreneurial characteristics and government support on firm performance. This proposition is captured below in the fourth and final hypothesis of the study.

H4: Internationalisation mediates the effects of entrepreneurial characteristics and government support on SME performance.

The four hypotheses generated above (H1 to H4) are subsequently incorporated into the international entrepreneurship framework proposed by Ruzzier et al. (2006), as shown in Figure 1.

RESEARCH METHOD

Survey instrument

A questionnaire was developed and arranged into five sections. Section One consists of items that measured the firm’s entrepreneurial characteristics. The items for the constructs were adapted from related sources in international business and entrepreneurship literature, as shown in Table 1. A six-point Likert scale was used, ranging from 1 = strongly disagree to 6 = strongly agree, to avoid problems associated with neutral scores such as ambivalence and social desirability bias (Johns 2005; Krosnick et al. 2002).

Section Two of the questionnaire assessed five common types of government support received by the firms, namely financial or credit assistance, technical train-
ing, advisory services, marketing or market research and infrastructure (Abdullah 1999). This scale is also a 6-point Likert scale with no neutral point, ranging from

<table>
<thead>
<tr>
<th>Item</th>
<th>Label</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>EO1</td>
<td>In dealing with competitors, we typically respond to actions that they initiate.</td>
<td>Dickson and Weaver (2008)</td>
</tr>
<tr>
<td>EO2</td>
<td>We offer unique benefits to the customers not offered by competitors.</td>
<td>Kreiser et al. (2002)</td>
</tr>
<tr>
<td>EO3</td>
<td>Compared to our competitors, we are very often the first to introduce new products or services.</td>
<td>Covin and Slevin (1989)</td>
</tr>
<tr>
<td>EO4</td>
<td>Our products and services are radically different from competitors.</td>
<td>Miller and Friesen (1983)</td>
</tr>
<tr>
<td>EO5</td>
<td>We respond quickly to environmental changes.</td>
<td></td>
</tr>
<tr>
<td>EO6</td>
<td>We perceive new opportunities more quickly than our competitors.</td>
<td></td>
</tr>
<tr>
<td>EO7</td>
<td>We initiate actions to which other organisations respond.</td>
<td></td>
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<tr>
<td>EO8</td>
<td>We provide higher quality products and services than our competitors.</td>
<td></td>
</tr>
<tr>
<td>EO9</td>
<td>We provide more superior solutions to our customer problem.</td>
<td></td>
</tr>
<tr>
<td>EO10</td>
<td>In general, we have a strong preference for low-risk projects with normal and certain rates of return.</td>
<td></td>
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<tr>
<td>EO11</td>
<td>We are willing to make investments in projects that have uncertain outcomes.</td>
<td></td>
</tr>
<tr>
<td>EO12</td>
<td>Compared to competitors, we are very often the first to introduce new products or services.</td>
<td></td>
</tr>
<tr>
<td>EO13</td>
<td>Compared to competitors, we are very often the first to introduce new operating technologies.</td>
<td></td>
</tr>
<tr>
<td>EO14</td>
<td>Compared to competitors, we are very often the first to introduce new administrative techniques.</td>
<td></td>
</tr>
<tr>
<td>GM1</td>
<td>We never change our product or service features specifically for our international customers.</td>
<td>Guy and Beaman (2003)</td>
</tr>
<tr>
<td>GM2</td>
<td>In our international business dealings, we believe that the ‘Malaysian Way’ is the best way.</td>
<td>Gupta and Govindarajan (2002)</td>
</tr>
<tr>
<td>GM3</td>
<td>Most of the time, we try to accommodate the unique requests of our international customers.</td>
<td></td>
</tr>
<tr>
<td>GM4</td>
<td>It is easy to adapt to the specific behaviours and practices of our foreign customers.</td>
<td></td>
</tr>
<tr>
<td>GM5</td>
<td>We can adapt to the special needs of customers in different countries.</td>
<td></td>
</tr>
<tr>
<td>GM6</td>
<td>Often the ways of our foreign partners are as good as or better than the Malaysian way.</td>
<td></td>
</tr>
<tr>
<td>GM7</td>
<td>Almost all our products are adapted to meet the special needs of each foreign market.</td>
<td></td>
</tr>
<tr>
<td>GM8</td>
<td>We should not think of ourselves as just a Malaysian company but as part of the ‘global community’.</td>
<td></td>
</tr>
<tr>
<td>GM9</td>
<td>Cultural values are quite similar around the world.</td>
<td></td>
</tr>
<tr>
<td>GM10</td>
<td>International business should be conducted according to universal standards and practices, not according to the standards and practices of one or two countries.</td>
<td></td>
</tr>
<tr>
<td>GM11</td>
<td>People around the world are much more similar than they are different.</td>
<td></td>
</tr>
<tr>
<td>GM12</td>
<td>We make products or services that can serve a global market.</td>
<td></td>
</tr>
<tr>
<td>NR1</td>
<td>Networking enables us to gain resources controlled by our competitors.</td>
<td>Coviello and Martin (1999)</td>
</tr>
<tr>
<td>NR2</td>
<td>Networking can open new opportunities for our company.</td>
<td>Coviello and Munro (1995)</td>
</tr>
<tr>
<td>NR3</td>
<td>Network relationships give us access to new markets.</td>
<td></td>
</tr>
<tr>
<td>NR4</td>
<td>Network relationships help us manage uncertainty risks.</td>
<td>Oviatt and McDougall (2005)</td>
</tr>
<tr>
<td>NR5</td>
<td>Networking improves our marketing planning and management.</td>
<td>Zain and Ng (2006)</td>
</tr>
<tr>
<td>NR6</td>
<td>We manage to cope with rapid technological changes due to our network relationships.</td>
<td></td>
</tr>
<tr>
<td>NR7</td>
<td>Network relationships provide a way of maximising our adaptability to new environments.</td>
<td></td>
</tr>
<tr>
<td>NR8</td>
<td>Our market knowledge is improved through networking.</td>
<td></td>
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</table>
1 = very low to 6 = very high. In Section Three, questions were asked about the firm’s level of internationalisation. Consistent with Ruzzier et al. (2006), internationalisation was measured using the firm’s number of foreign markets, duration of its international business operations and the percentage of its annual sales and profit derived from international operations. Items on the company’s performance were listed in Section Four. Referring again to Ruzzier et al. (2006), firm performance was measured based on return on asset, return on equity and sales growth. Sections Three and Four utilised 6-point scales with ascending incrementation, where 1 = 0 to 20%, 2 = 21 to 40%, 3 = 41 to 60%, 5 = 61 to 80% and 6 = 81 to 100%. Finally, Section Five sought general company information in terms of a form of ownership, the location of the head office, the primary line of business and duration in the current industry.

Section Two of the questionnaire assessed five common types of government support received by the firms, namely financial or credit assistance, technical training, advisory services, marketing or market research and infrastructure (Abdullah 1999). This scale is also a 6-point Likert scale with no neutral point, ranging from 1 = very low to 6 = very high. In Section Three, questions were asked about the firm’s level of internationalisation. Consistent with Ruzzier et al. (2006), internationalisation was measured using the firm’s number of foreign markets, duration of its international business operations and the percentage of its annual sales and profit derived from international operations. Items on the company’s performance were listed in Section Four. Referring again to Ruzzier et al. (2006), firm performance was measured based on return on asset, return on equity and sales growth. Sections Three and Four utilised 6-point scales with ascending incrementation, where 1 = 0 to 20%, 2 = 21 to 40%, 3 = 41 to 60%, 5 = 61 to 80% and 6 = 81 to 100%. Finally, Section Five sought general company information in terms of a form of ownership, the location of the head office, the primary line of business and duration in the current industry.

**Sampling**

The sample population consists of Malaysian SMEs that were involved in international operations and that generated a portion of their sales and profits from foreign markets. Three comprehensive databases provided by the Federation of Malaysian Manufacturers, SME Corporation Malaysia and the Malaysia External Trade Development Corporation, were used as the sampling frame. After checking for multiple entries across the databases and filtering them out, the sampling frame consisted of 1,200 SMEs. Questionnaires were distributed at the head office of the three organisations mentioned above, and an officer was available to assist with data collection. Completed surveys were retrieved two months later from the officer.

**Data analysis**

Structural equation modelling (SEM) was chosen as the primary statistical procedure to examine the relationships involving the four key variables, because it allows the variables to be treated as separate units, unlike regression analysis which
employs a piecemeal approach (Kline 2005). The results of the SEM indicated the validity and significance of the adopted model shown in Figure 1 and allowed a conclusion to be made on whether or not there is support for each hypothesis tested.

**Structural model**

Goodness-of-fit indices were inspected to determine whether the hypothesised structural model fits the data. In cases where the model does not fit the data, it needs to be re-specified until it achieves an acceptable statistical fit and indicates a theoretically meaningful representation of the observed data (Anderson and Gerbing 1988; Hair et al. 2006; Kline 2005). The path diagram of the re-specified full structural model produced indices within the acceptable recommended values, where CFI = 0.947, CMIN/DF = 1.672 and RMSEA = 0.053. Therefore, it can be concluded that the fit of the resulting model is reasonably good.

Subsequently, the structural model was rested and presented for the analysis. A reliability analysis was conducted for the final items of independent, mediating and dependent variables of this study. The results (refer to Table 2) show that the reliability coefficients range from 0.700 to 0.954, which concur with Nunnally’s (1978) minimum acceptable level of 0.70.

The mean values presented in Table 2 indicate that the respondents scored highest in global mindset (M=4.785), followed by network relationships (M=4.644), entrepreneurial orientation (M=4.332) and finally government support (M=3.526).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Final Items</th>
<th>Cronbach’s Alpha</th>
<th>Mean Score</th>
</tr>
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<tbody>
<tr>
<td>Entrepreneurial Orientation (EO)</td>
<td>EO8, EO9, EO12, EO13, EO14</td>
<td>0.821</td>
<td>4.332</td>
</tr>
<tr>
<td>Global Mindset (GS)</td>
<td>GM5, GM10, GM12</td>
<td>0.700</td>
<td>4.785</td>
</tr>
<tr>
<td>Network Relationships (NR)</td>
<td>NR2, NR3, NR6, NR7, NR8</td>
<td>0.853</td>
<td>4.644</td>
</tr>
<tr>
<td>Government Support (GS)</td>
<td>• Financial or credit assistance</td>
<td>0.905</td>
<td>3.526</td>
</tr>
<tr>
<td></td>
<td>• Technical training</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Advisory services</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Market or marketing research</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internationalisation (INT)</td>
<td>• Length of international experience</td>
<td>0.823</td>
<td>3.011</td>
</tr>
<tr>
<td></td>
<td>• Number of international markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Percentage of sales from international operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Percentage of profit from international operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm Performance (FP)</td>
<td>• Return on asset</td>
<td>0.926</td>
<td>3.214</td>
</tr>
<tr>
<td></td>
<td>• Return on equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Sales growth</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Results of reliability and means analysis
Additionally, the mean levels of internationalisation (M=3.011) and performance (M=3.214) appear to be on the low side. These results suggest that the firms possess strong entrepreneurial characteristics but receive little government support and demonstrate low levels of internationalisation and performance.

RESULTS AND DISCUSSIONS

From a sampling frame of 1,200 SMEs, a total of 237 completed questionnaires were returned. It yielded an effective response rate of 19.8 per cent and was considered a large enough sample for SEM (Hair et al. 2006; Loehlin 1992). First, however, frequency analysis was used to generate a profile of the respondents.

Profile of respondents

A descriptive analysis was performed to establish the general background of the respondents. Of the 237 SMEs surveyed, 12.2 per cent were sole proprietorships while partnerships and private limited companies constituted 11.4 per cent and 76.4 per cent respectively. Approximately 60 per cent of them were based in urban locations, 31.6 per cent were in suburban areas while the remaining 8 per cent were rural-based. In terms of the line of business, 41.4 per cent of the respondents were involved in manufacturing activities, 35.4 per cent in services and 23.2 per cent in agricultural companies. About 50.6 per cent of them began their operations less than ten years ago, while another 25.8 per cent had been operating for 10 to 20 years. 23.6 per cent of the firms had an establishment of more than 20 years. As for the length of internationalisation, 76 per cent of the firms had been involved in international operations for less than ten years, 12.2 per cent for 10 to 20 years and 11.8 per cent for more than 20 years. On the location of international markets, nearly half of them (47.7%) conducted business transactions only within the Association of Southeast Asian Nations region, 35.9 per cent transacted with Asian countries and just 16.4 per cent have ventured to other continents beyond Asia. Almost 60 per cent of the respondents were transacting with fewer than five countries, 19.8 per cent had transactions with six to ten countries while less than 19 per cent had penetrated more than ten countries. Analysis of the percentage of total sales from international operations shows that 42.2 per cent of the respondents enjoyed less than 20 per cent of sales from such sources, 24.5 per cent generated between 21 and 40 per cent and the remaining one-third had more than 40 per cent. Also, 51.5 per cent of the respondents received less than 20 per cent profit from international sources, 19 per cent had 21 to 40 per cent, while 29.5 per cent recorded more than 40 percent.

<table>
<thead>
<tr>
<th>Path</th>
<th>Estimate</th>
<th>SE</th>
<th>CR</th>
<th>p-level</th>
</tr>
</thead>
<tbody>
<tr>
<td>EO --- INT</td>
<td>0.044</td>
<td>0.126</td>
<td>0.352</td>
<td>0.725</td>
</tr>
<tr>
<td>GM --- INT</td>
<td>0.279</td>
<td>0.180</td>
<td>1.552</td>
<td>0.121</td>
</tr>
<tr>
<td>NR --- INT</td>
<td>−0.086</td>
<td>0.102</td>
<td>−0.852</td>
<td>0.394</td>
</tr>
<tr>
<td>GS --- INT</td>
<td>0.077</td>
<td>0.034</td>
<td>2.232</td>
<td>0.026*</td>
</tr>
</tbody>
</table>

*Significant at p<0.05
Hypothesis testing

Table 3 provides a summary of the parameter estimates, standard error (SE), the critical ratio (CR) and p-value for each hypothesised path. These results were used to address the four hypotheses of this study, as described next.

H1: Entrepreneurial characteristics (comprising entrepreneurial orientation, global mindset and network relationships) have a direct positive effect on SME internationalisation.

The path that connects entrepreneurial orientation to internationalisation yields a β-value = 0.044, CR W= 0.352 which is not significant at p<0.05 level. Similarly, the link between global mindset and internationalisation generated a β-value = 0.279, CR = 1.552, not significant at p<0.05 level. The path that connects network relationships to internationalisation produces a β-value = −0.086, CR = −0.852, also not significant at p<0.05 level. From these results, it can be concluded that all three entrepreneurial characteristics do not have a direct effect on internationalisation. Therefore, contrary to expectation, there is no support for H1.

H2: Government support has a direct positive effect on SME internationalisation.

The β-value for the path from government support to internationalisation is 0.077 (CR = 2.232) and is significant at p<0.05 level. This finding indicates a direct positive relationship between government support and internationalisation. Thus, H2 is supported.

H3: Entrepreneurial characteristics are stronger predictors of SME internationalisation than government support.

The third hypothesis was forwarded based on the view that a company’s entrepreneurial traits are more important than government support in determining its internationalisation. As shown earlier in Table 3, none of the three entrepreneurial characteristics selected for this study has a significant direct effect on internationalisation. Only government support is found to be directly related to the endogenous variable, at p<0.05. Hence, H3 is not supported.

H4: Internationalisation mediates the effects of entrepreneurial characteristics and government support on SME performance.

The four-step procedure suggested by Baron and Kenny (1986) was observed as a way to test the fourth and final hypothesis. Results of the analysis are shown in Table 4.

<table>
<thead>
<tr>
<th>Model</th>
<th>Path a IV-MV</th>
<th>Path b MV-DV</th>
<th>Path c’ Direct effect</th>
<th>Path c Mediated effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>EO-INT-FP</td>
<td>0.03</td>
<td>0.19*</td>
<td>0.15</td>
<td>0.16</td>
</tr>
<tr>
<td>GM-INT-FP</td>
<td>0.17</td>
<td>0.19*</td>
<td>0.07</td>
<td>0.10</td>
</tr>
<tr>
<td>NR-INT-FP</td>
<td>−0.10</td>
<td>0.19*</td>
<td>−0.01</td>
<td>−0.03</td>
</tr>
<tr>
<td>GS-INT-FP</td>
<td>0.16*</td>
<td>0.19*</td>
<td>0.20*</td>
<td>0.23*</td>
</tr>
</tbody>
</table>

*Significant at p<0.05
For government support, path a (independent variable to mediator) is significant at $p < 0.05$, indicating that government support directly affects internationalisation. Path b (mediator to dependent variable), is also significant at $p < 0.05$, while the parameter estimate of path $c'$ (0.20) is smaller than that for path $c$ (0.23). These findings indicate that the effect of government support on firm performance is stronger when mediated through internationalisation than its effect without internationalisation. Therefore internationalisation can be said to mediate the effect of government support on internationalisation.

Nevertheless, the results demonstrate that path a is not significant for any of the three entrepreneurial characteristics (at $p < 0.05$), indicating that none of the entrepreneurial characteristics have a significant direct effect on internationalisation. As a result, the criteria for mediation effect are not fulfilled for entrepreneurial characteristics. Accordingly, there is no evidence to suggest that internationalisation plays a mediating role in the relationship between entrepreneurial characteristics and company performance.

MANAGERIAL IMPLICATIONS IN THE SOUTHEAST ASIAN CONTEXT

Several findings of the study suggest a unique situation faced by the respondents as a result of contextual factors in the home environment. Whereas in some countries, entrepreneurial characteristics appear to have a direct effect on internationalisation (Coviello and Martin 1999; Gupta and Govindarajan 2002; Westhead et al. 2001), this effect is not evident in the present study. Indeed, the results imply that only government support can directly predict the internationalisation of Malaysian SMEs. This finding can be partly explained by delving into the respondents’ profile, which underlines the overall challenges associated with company age and size. Young SMEs usually suffer from both the liability of newness and the liability of smallness (Aldrich and Auster 1986; Andersson et al. 2006; Saleh and Ndubisi 2006; Smallbone and Welter 2001), resulting in limited access to resources that might assist their growth. Additional constraints include poor managerial competencies, ineffective networking and low productivity. These firms also generally lack information on overseas markets and appropriate modes of entry. So, government support can directly improve their internationalisation by providing official data and channels of communication (Hashim 2012; Pergelova and Angelo-Ruiz 2014).

Besides the firms’ experience and size, the political and regulatory environment of the home country can also provide some explanation for the above findings. According to Sim and Pandian (2003), significant differences exist among countries regarding relationships between businesses and the government, for example, while state-business relations are less important in developed countries due to their established leadership in the marketplace. These relationships are exercised to a greater extent in developing and emerging economies as a late entrant strategy to improve their global positions. Nevertheless, government interventions sometimes have an unintended effect. In Malaysia, heavy state intervention and protectionist practices implemented by the government tend to reduce the control entrepreneurs have of their strategies and directions and make them more inclined to conform directly to government policies and guidelines (Fraser et al. 2006; Jomo 1998). This lack of control may explain why entrepreneurial characteristics are not direct predictors of
internationalisation for Malaysian SMEs, while government support is. However, the high mean values of entrepreneurial orientation, network relationships and global mindset scored by the respondents indicate that the importance of entrepreneurial characteristics cannot be completely ruled out. These values underline the possibility that the effect of government support on SME internationalisation may be contingent on the strength of the firms’ entrepreneurial characteristics. Accordingly, from a theoretical perspective, a new research question has emerged from the study, which can be phrased as follows: do entrepreneurial characteristics moderate the effect of government support on internationalisation? With an underpinning proposition that government support can improve a firm’s internationalisation only when its entrepreneurial characteristics are strong, an alternative framework can be forwarded, as visualised in Figure 2. Such a proposition should make an interesting topic in future SME research, for Malaysia and other countries with a similar background.

**THEORETICAL IMPLICATIONS**

This study was concerned with the empirical investigation of the effects of entrepreneurial characteristics and government support on SME internationalisation and performance. Using a model of international entrepreneurship proposed by Ruzzier et al. (2006), the theoretical relationships among the variables were assessed from the perspective of Malaysia as a developing country. Findings of the study affirm the importance of internationalisation for SME growth, supporting earlier research on how successful SMEs increase market and partnership opportunities, expand market size and improve economies of scale through internationalisation (Bosma and Levie 2010; Lu and Beamish 2006; Barringer and Greening 1998; Bonaglia et al. 2007). In line with Ruzzier et al. (2006), the results indicate that SMEs maximise the benefits of government support through internationalisation to generate higher sales, profits and returns on investment. Accordingly, this study provides further evidence on the importance of internationalisation as a mechanism for improving SME performance.

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**Figure 2.** Proposed framework of international entrepreneurship
CONCLUSION

This study has contributed to the discourse on internationalisation by applying the international entrepreneurship theory in the context of a developing economy and testing the associated relationships empirically. While the findings affirm the significance of internationalisation as a vehicle for SME growth, they also highlight the question of whether existing theories and models of internationalisation are applicable in multiple settings. This paper has proposed an alternative framework which can potentially add to future theoretical development in international entrepreneurship research.

From a practical standpoint, the paper has emphasised the significance of government support in helping SMEs overcome their inexperience and size-related disadvantages. However, providing government support through direct state intervention and protectionist practices is not a sustainable strategy for business development in a region which is rapidly exposed to globalisation and trade liberalisation. Further, while acknowledging the overall importance of state support for SME growth, the paper also calls upon scholars, policy-makers and entrepreneurs to investigate the long-term effects of specific government policies and practices on the ability of Malaysian businesses to succeed internationally.

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